



Office of Inspector General  
U.S. Department of State  
U.S. Information Agency, including  
Broadcasting Board of Governors

# MONTHLY REPORT OF ACTIVITIES

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*audits, inspections, testimony, and special activities*

**July 1999**

This report describes testimony provided by the Inspector General or other OIG officials and lists OIG reports issued during the period indicated. This report includes unclassified summaries of classified reports; all text in this report is unclassified. Classified reports are not distributed publicly. On occasion, OIG distributes an unclassified version of a classified report; in such a case, this listing also indicates the issued date of the original report. In addition, all major reports, together with OIG investigative activities are summarized in the Inspector General's semiannual reports to the Congress, which are publicly available every June and December.

## **Congressional and Outreach Activities**

On July 22, the Inspector General was invited for a second appearance to testify before the Senate Special Committee on the Year 2000 Technology Problem in a hearing titled “Computer Problem: Global Readiness and International Trade.” The Inspector General provided an overview of global Y2K readiness based on continued host country assessments conducted by an OIG audit inspection team. The testimony highlighted global Y2K readiness in terms of the varying levels of progress that different countries have made in assessing and fixing their systems, and the risk that Y2K failures might cause in key sectors in countries around the globe. The Inspector General reported that the assessments conducted by her office suggest that the global community is likely to experience varying degrees of Y2K-related failures in every sector, region, and at every economic level. She also reported that the risk of disruption would likely extend to international trade, which is threatened by potential Y2K-related failures in key infrastructure sectors, such as telecommunications, transportation, and energy. Such disruptions will seriously impact the U.S. and world economies.

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The Inspector General testified before the Committee on Government Reform on July 29, regarding the Department of State’s handling of allegations of visa fraud and other irregularities at the US Embassy in Beijing. The Inspector General’s testimony highlighted OIG’s general oversight of the Department of State’s consular antifraud efforts, including general information pertaining to OIG visa fraud investigations.

## **Reports Issued by the Office of Audits**

### **Review of Fiscal Year 1999 Indirect Cost Rate, American Institute of Taiwan (99-CG-022)**

In response to a request from the Bureau of Administration Logistic Management/Office of Acquisition Management (A/LM/AQM), OIG reviewed the American Institute of Taiwan's (AIT) proposed FY 1999 indirect cost proposal. The purpose of our review was to determine if (1) AIT's proposed FY 1999 indirect cost rate was accurate, (2) the indirect cost rate was reasonable, and (3) the proposed indirect rate structure was logical, traceable, and complied with Office of Management and Budget (OMB) Circular A-122. We questioned \$443,488 in proposed indirect costs, resulting in a recalculated indirect cost rate of 28.32 percent and a rate reduction of 2.72 percent. We recommend that the contracting officer establish a provisional rate of 28.32 percent for pricing contract application budgets and interim reimbursement of indirect expenses.

### **The Malaysian-American Commission on Educational Exchange (USIA-CG-99-024)**

OIG reviewed the Malaysian-American Commission on Educational Exchange (the Commission) at the request of USIA's Bureau of Educational and Cultural Affairs (E Bureau) to determine whether the foundation adequately accounted for Federal funds and complied with applicable laws and regulations.

The review disclosed that the Commission adequately accounted for Federal funds and employee retirement funds. Furthermore, the Commission generally complied with applicable laws and regulations, but surplus funds totaling as much as \$108,000 accumulated at the Commission during the audit period. Commission administrative costs were higher than necessary because the Commission used program funds for advising and administrative costs that were not associated with the core Fulbright program. The Commission also did not include its testing fund balance in quarterly financial reports submitted to USIA. As of September 30, 1996, the testing fund balance totaled \$482,000. Because USIA did not review the Commission's annual audited financial statements and compare them to the quarterly reports, it was not aware of the testing fund balance. Although the testing funds were not Federal funds, USIA may have reduced the Commission's country allocation or required a program cost share that could have resulted in significant cost savings for the Federal Government. The Commission implemented

its approved program; however, problems existed in reporting program information and identifying program results. Both USIA and the Commission generally agreed with the report's findings and recommendations.

## Reports Issued by the Office of Inspections

### **Compliance Follow-up Review of the Inspection of Embassy Mexico City, Mexico, and Constituent Posts, and USIS, Mexico (ISP/C-99-17)**

The Compliance Follow-up Review (CFR) of the inspection of Embassy Mexico City in 1997 found that compliance with the recommendations contained in inspection report ISP/I-97-41 has been good. Notwithstanding a significant turnover of senior staff at the embassy, the CFR closed 85 of the 91 formal recommendations. The review revised and reissued six recommendations and issued three new recommendations.

The previous inspection commended Embassy Mexico City's leadership. OIG found that the mission's management continues to deserve praise. Both the new Ambassador and DCM, who acted as chargé for 13 months, are effective at their representation duties and show concern for the internal workings of the embassy.

The mission works in close cooperation with the Mexican government on a variety of anti-drug programs and strategies. The 1997 inspection noted that Embassy Mexico City's counternarcotics program, as described in the Mission Program Plan (MPP), did not include the considerable resources provided by the Department of Defense. OIG found that the military contribution remains substantial, and it is now closely integrated in the overall mission counternarcotics effort.

A new consular management team has introduced a series of imaginative measures that have dramatically improved efficiency and service to the public, eliminating long lines that caused serious public relations problems. Key among those measures is a user-pays, countrywide 900-number visa information and appointment system, as well as a courier system to return visaed passports. Front office support has been instrumental in resolving a series of recommendations by obtaining financial and administrative support for additional staffing, equipment, and a renovation of the visa pavilion (scheduled for completion in mid-1999). During the CFR, the Bureau of Consular Affairs (CA) noted that Mexico demonstrates that "judicious use of appropriate CA best practices can fundamentally improve the quality of service" at the largest visa operations. OIG agrees.

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The 1997 inspection report cited an Embassy/Office of Foreign Buildings Operations (A/FBO) program to purchase 91 residential units in a favorable real estate market as a major accomplishment. As part of that program, the Department contracted for purchase of four cluster groups of apartments and townhouses, to be constructed to A/FBO specifications at a cost of \$18.8 million. However, major construction shortcomings have forced employees to put up with substandard conditions or temporarily vacate their homes. Inadequate sewer systems, fire alarms, roofs, stair and wall construction, plumbing, window and door frames require renovation or replacement at a total cost of about \$1 million. OIG recommended that the Department determine accountability for the construction shortcomings and attempt to recover the repair and renovations costs.

A long-standing reciprocity sales tax problem concerning the Mexican Impuesto Al Valor Agregado (IVA), which the embassy and its staff pay, remains unresolved. Time consuming, cumbersome, and often unsuccessful refund procedures have deterred many employees from seeking IVA recovery. Embassy Mexico City expends substantial time and attention in obtaining IVA refunds for itself and its employees. Efforts, over many years, have failed to improve the Mexican Government's efficiency in refunding IVA or to obtain point-of-sale tax relief. OIG recommended that the Department systematically restrict tax exemption privileges provided to Mexican government personnel until reciprocity is achieved.

## **Reports Issued by the Office of Security and Intelligence Oversight**

During this reporting period, OIG security oversight inspections were completed at the following embassies: London, United Kingdom; Prague, Czech Republic; and Luxembourg.